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Cc:

BOARD OF FINANCE
OCTOBER 20, 2009
REGULAR MEETING

1. CALL TO ORDER

The Regular Meeting of the Board of Finance was called to order at 6:00 P.M. in the Main Meeting Room of the Simsbury Town Offices. The following members were present: Paul Henault, Peter Askham, Candace Fitzpatrick, Nicholas Mason, Anita Mielert and Kevin North. Also present were Director of Finance Kevin Kane, Board of Education Business Manager David Holden, Chief of Police Peter Ingvertsen and other interested parties.

2. MINUTES

Mr. Mason made a motion to approve the minutes of the September 15, 2009 Regular Meeting. Mr. Askham seconded the motion and it passed 5-0 (Mr. Henault abstained).

3. TRANSFER FROM RESERVES REQUEST FOR PUBLIC SAFETY GRANTS

A request was submitted to the Board to authorize the transfer of funds from reserves in connection with the acceptance of two grants that were recently approved by the Board of Selectmen. Chief Ingvertsen provided the Board with an overview of the two grants: 1) a Justice Assistance Grant for $30,000 and 2) a U.S. Dept. of Justice grant for $65,000. The $30,000 grant, which is offered through the State to municipalities, would be used to replace cruiser radios and magazines for duty guns (both of which are nearing the end of their 10-year expected lifespan), magazine parts, sights for rifles and replacement of two dispatch chairs. The $65,000 grant, which is for technical equipment, would be used to outfit nine cruisers with mobile video cameras, replace a 30-year old UHF base station which is used for intercommunication, implement a new identification card system and update the audio/visual system in the detention area.

Mr. Henault asked if funds would be expended prior to the grants being received. Chief Ingvertsen stated that the JAG grant would provide reimbursement incrementally as items are purchased and the federal grant requires that the money be spent in total and then get reimbursed. Chief Ingvertsen stated that the purchases made with the grant money will bring all the police equipment up-to-date.

Mr. North made a motion to approve (1) a transfer from reserves in the amount of $30,000 in connection with the acceptance of the Justice Assistance Grant and (2) a transfer from reserves in the amount of $65,000 in connection with the acceptance of the U.S. Department of Justice grant. Mr. Askham seconded the motion and it passed unanimously.

4. PENSION FUNDING DISCUSSION

Becky Sielman, a representative of Milliman, the Town's outside actuary, stated that she was cautiously optimistic that market activity in the third and fourth quarters should be able to offset the horrific activity that was experienced in the first and second quarters. The rate of return for the fiscal year 2008/2009 was (20%). The average rate of return experienced by her other clients was (16%). She provided the Board with an historical summary of rates of return experienced by the Town's pension plans over the past 14 years, showing nine years of gains and five years of losses. The overall rate of return was 5.4%. If the prior year's experience was extracted, it would have been 7.6% and if the last two years were extracted, it would have been 8.7%.

Ms. Sielman stated that the question she always receives is whether the interest rate assumption should be dropped when determining the required contribution to the pension plan. Based on the current asset allocations (60% equities/40% stocks), she felt very comfortable with the current assumption of 7.75% and that it was even somewhat conservative. She also noted that there are two other changes that were made about a year ago. The interest rate assumption became more conservative and the period used for amortizing the unfunded liability got extended to 25 years. Amortization was changed so that payments go up over time as a level percent of pay. The changes were made in anticipation of a second bad year so as to provide a cushion to absorb some potential losses. Every dollar of loss experienced in the market downturn in the past year will need to eventually be made up, either through investment gains or Town funds.

Ms. Sielman showed the Board a 10-year projection of contributions and reviewed some changes that could be made as to how the contribution is calculated and their effects on the 2011 contribution as well as contributions further out. She reminded them that there will always be a "pay now or pay later" aspect to decisions made in financial planning. Ms. Sielman stated that the contribution calculations are always based on a June 30th valuation date for the past year when budgeting for the upcoming year.

Mr. North questioned to what extent increasing the amortization period at the same time as adjusting the investment rate of return masked the difference in contribution that otherwise might be made if there was no change in the amortization period. Ms. Sielman stated that they are somewhat offsetting and that the decision to make the adjustments was made by the Pension Subcommittee in November or December of last year when it was known that investment losses were forthcoming. The mortality table was also adjusted at that time to reflect longer life spans. Mr. North felt that these types of decisions should not be made without the knowledge of the Board of Finance. It was noted that the Pension Subcommittee is an appointed subcommittee of the Board of Selectmen and not the Board of Finance.

Mr. Askham asked about the change in unfunded accrued liability from the prior year. Ms. Sielman stated that the unfunded liability was $6.9 million last year and is now $13.4 this year. Mr. Henault noted that the employer contribution must increase by $455,000 under the current assumptions. Mr. Mason stated that the Pension Subcommittee, in making the changes, was looking for a scenario using reasonably accepted standards for smoothing out the pension funding increases. Mr. North stated that he appreciated that, but felt that these decisions needed to be transmitted to the Board of Finance. Mr. Mason agreed that the Board of Finance should take more responsibility in this area and that there should be a formal reporting procedure. Mr. Askham noted that having a consistent policy in place would make it easier to budget and keep meeting the unfunded obligation. Ms. Fitzpatrick suggested that they ask the Board of Selectmen to solicit Board of Finance input prior to acting on Pension Subcommittee recommendations.

Ms. Mielert asked about increases in the liabilities that may have arisen from promises made to employees in the future as it was her understanding that there had been a significant increase in pension obligation due to increased payout changes. Ms. Sielman stated that the liability is actually lower this year since the employees did not take pay increases. Mr. North asked if there was a way to demonstrate if the liabilities have increased due to the plans becoming more generous by virtue of their terms versus the passage of time. Ms. Sielman thought that she could compile an analysis, but stated that the accrued liability alone would not demonstrate the effects of some plan changes that were recently made as there were corresponding increases in employee contributions that would offset the annual contribution increase and would not show up in the liability.

Mr. Askham asked about defined contribution plans. Ms. Sielman stated that the majority of towns of this size and larger in Connecticut have defined benefit plans, whereas defined contribution plans tend to be in smaller towns. Mr. Mason felt that the Town should be moving in the direction of promoting defined contribution plans for new hires so that the further growth of the defined benefit plans is restricted.

Ms. Sielman stated that the ten-year contribution projection shows a steep increase over the next five years since investment gains and losses are smoothed over a five-year period. She reviewed some options for absorbing last year's losses and spreading out the pain into a longer period, resulting in lower contributions in the short term and higher contributions in the long term. Ms. Sielman stated that the pension contribution consists of "normal costs" (the cost of benefits earned each year) which goes up over time as employees' pay increases and the amortization payment to pay off the unfunded liability. Absent any gains or losses, the payment is designed to go up at a rate of about 4% per year. Mr. Mason noted that the unfunded liability has grown over the last few years due to market conditions and not inadequate contributions. Ms. Sielman concurred, adding that the plan has gone from being 118% funded to now being 77% funded.

Mr. Henault asked if perhaps there was a bubble impacting the plan due to a skewing of employee ages. Ms. Sielman responded that the demographics of the plan are comparable to other municipalities, that the average employee age is in the upper 40's and that tends to remain stable and that there is no retirement bulge.

Mr. North asked if it would not be better from a purely economical basis, although certainly not politically, to recognize the losses and increased contributions now as actual costs of operation such as was done when the OPEB fund had to be established. Ms. Sielman stated that she agreed with Mr. North's rationale, but that the market events over the last year have been extraordinary and will have to be met by the taxpayers and that there are certain adjustments that can be made to ease that pain since the pain is so significant. She also added going into a panic this fall may be premature as there may very well be market gains in the future that will offset the losses.

Ms. Sielman reviewed how the Actuarial Value of Assets is calculated, which is a smoothing mechanism in which the assets are valued as if they had experienced the expected rate of return (7.75%). Using this method, there is a delayed recognition of market gains or losses of 20% each year, so that this year 80% of the $4.3 million cost would be removed. An additional constraint (the corridor limit) prevents the resulting value from straying from the market value by more than 20%. The effect is that the $586,000 contribution would increase to $759,000. Without using this method, the increase would be much higher. Ms. Sielman stated that there are four possible changes that can be made: 1) the corridor limit can be modified or removed; 2) the asset smoothing period can be lengthened; 3) the amortization period can be lengthened; and 4) the amortization growth rate can be changed. The last two options were utilized last year. Ms. Sielman stated that she would be comfortable removing the corridor and increasing the asset smoothing period somewhat, but would not be in favor of changes that ignore reality.

Mr. Henault noted that the Board's decision will have to do with what changes will have to be made when it looks at the overall budgets for the Town of Simsbury, but that the main concern should be the ability to meet obligations. Mr. North asked if it would be possible to survey the practices used by other area towns relative to asset valuation. Ms. Sielman recommended removing the corridor in order to provide relief in the current year. She felt that it was important to keep the plan on a funded basis using the amount recommended by the actuary. Mr. North stated that he would like to see a calculation based on a 7.5% assumed rate of return.

5. 2010 CALENDAR OF MEETING DATES

The Board reviewed a draft of proposed meeting dates for 2010 and decided to approve a final schedule at its November meeting. It was noted that three of the meetings would have to be held in Room D-172 at the high school as the Main Meeting Room is unavailable.

6. 2010/2011 OPERATING AND CAPITAL BUDGET DISCUSSIONS

Discussion deferred until the next meeting.

7. BOARD OF FINANCE SPECIAL MEETING FOR PUBLIC INPUT ON BUDGETS

The Board decided to cancel its November 17th Regular Meeting and combine it with a Special Meeting on November 18th for a pre-budget public audience at the SHS Amphitheatre.

8. OTHER BUSINESS

Mr. Holden provided the Board with a first quarter budget analysis for the Simsbury Public Schools for the 2009/10 fiscal year. He noted that statewide caps have been placed on grants for transportation, health services, adult education and special ed excess costs and the impact of those caps on Simsbury has not yet been determined. He stated that there are three additional tuition-paying students than were originally projected. There are variances in four accounts resulting in an $18,000 surplus and staffing has decreased by 13 positions (8 certified staff). He noted that those positions would have decreased even further had not the Federal Special Education IDEA funds been received. The student population is currently 68 less than last year and 18 fewer than were originally projected. Fuel oil prices are locked in at $1.00 less than last year.

Mr. Kane reported no significant budget variances. He also provided the Board with a memo outlining the 2010/11 debt service budget and a proposed 2010 bond issue.

Mr. Henault stated that he would like to continue to see quarterly reports from both boards.

Ms. Fitzpatrick made a motion that the Board of Finance formally request that the Board of Selectmen solicit input from them prior to taking any action on recommendations suggested by the Pension Subcommittee. Mr. North seconded the motion and it passed 5-0 (Mr. Mason abstained).

9. ADJOURNMENT

Ms. Fitzpatrick made a motion to adjourn the meeting at 7:35 P.M. Mr. North seconded the motion and it passed unanimously.

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Paul Henault, Chairman Debra L. Sweeney, Clerk